

## **Polgahawela Pradeshiya Sabha - 2022**

---

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Polgahawela Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Subsection 172 (1) of the Pradeshiya Sabhas Act No. 15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of Polgahawela Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the financial reporting process of the Pradeshiya Sabha.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Pradeshiya Sabha.

#### **1.4 Audit Scope (Auditor's Responsibility for the Audit of the Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the Pradeshiya Sabha;
- Whether the Pradeshiya Sabha has performed according to its powers, functions and duties; and

- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Report on Other Legal Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observation in relation to the preparation of the Financial Statements

### 1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Sabha	Recommendatio
(a)	Creditors worth Rs.1,474,427 related to the year under review had not been accounted.	Action will be taken to properly account the creditors.	Action should be taken to account properly.
(b)	When the stock of electrical goods amounting to Rs.132,690 existed in the Sabha as at 31 December in the year under review had been brought to accounts, a sum of Rs.396,827 had been debited again erroneously to the stock of electrical goods. As a result, stock of electrical goods had been overstated by Rs.529.517.	That the mistake made in accounting will be rectified in the future.	-Do-
(c)	The income from shop rental worth Rs.56,955 received during the year under review in relation to the year 2023 had not been accounted under current liabilities.	That the arrears of income have been left out of the accounts as the arrears of income had not been included in the monthly statement.	-Do-
(d)	A sum of Rs.1,064,497, which had been the expenditure of water pool constructed for boating in Children's Park had not been capitalized.	That the value of constructing the water pool for boating in the children's park will be capitalized in the future	The expenditure for water pool should be capitalized.

(e)	Five (05) industries worth Rs.1,100,000, which had been proposed to be entered in to contracts in the year under review had not been entered in to contracts and accounted as creditors in the year 2022.	After obtaining the approval of the Committee, the amount of Rs.1,100,000 related to these industries will be eliminated from the list of creditors.	Industries that had not entered in to contracts should not be accounted as creditors.
(f)	A sum of Rs.329,770 related to 02 industries completed in the year 2020 by Weerambagedara Divisional Secretariat had been accounted as debtors of the Pradeshiya Sabha.	The amount of Rs.329,770 related to these two industries has been mistakenly accounted as debtors and action will be taken to rectify the error.	Action should be taken to account accurately.
(g)	Even though the final payment for concreting the new road for entering to Arangama Sri Bodhirukkarama Temple had been Rs.295,437, it had been accounted as Rs.495,143.	Action will be taken to enter the correct amount to be paid henceforth will be entered in the register of creditors.	-Do-
(h)	The amount of Rs.43,241 to be received for a construction project had been received during the year under review, it had been further accounted as debtors.	It had been erroneously recorded as debtors as at 31 December 2022. Necessary action will be taken to rectify it.	-Do-
(i)	Deposits worth Rs.151,160 existed as at the end of the year under review had not been included in the financial statements.	It has been omitted to include the Industrial Administration Deposit amounting to Rs.151,160 in the financial statements.	Deposit balances should be accurately accounted.

## 1.6.2 Unreconciled Control Account

Audit Observation	Comments of the Sabha	Recommendati
There had been a difference of Rs.18,848,707 between the balances related to 21 accounting subjects totalling to Rs.72,242,020 indicated in the financial statements as at 31 December of the year under review and balances indicated in schedules.	Action will be taken to rectify the difference in balances as per schedules and financial statements.	Action should be taken to account accurately.

## 1.7 Non-compliance

### Non-compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non-compliances with Laws, Rules, Regulations and Management decisions are mentioned below.

	<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) (i)	FR -371	A delay of time from 21 days to 332 days had occurred for re-settling the advances obtained in 56 instances as advances during the year 2022.	Action will be taken hereinafter to supervise the obtaining and settlement of advances.	Action should be taken in terms of the aforesaid Financial Regulations.
(b)	Section 18 (vi) of the Circular of the Commissioner Local Government of North Western dated 22 April 2019	Even though 06 persons, who had obtained shop leases had defaulted the payment of taxes for a long time, action had not been taken according to the Circular.	Action should be taken to recover the arrears amounts legally.	Action should be taken in terms of the Circular.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the expenditure, which exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2022, had been Rs. 3,076,126 as against the revenue, which had exceeded the expenditure in the previous year had been Rs. 98,499,491.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

Information about estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year is mentioned below.

Revenue Source	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	12,676	103,131	8,276	2,036	8,221	8,155	5,207	16,419
Rents	1,131	6,531	6,121	409	1,354	5,763	5,590	173
License Charges	500	358	358	-	500	323	323	-
Other Revenue	72,379	-	108,536	-	66,900	-	17,114	-
	86,686	110,020	123,291	2,445	76,975	14,241	28,234	16,592

## 2.2.2 Performance of the Collection of Revenue

Audit Observation	Comments of the Sabha	Recommendation
The outstanding balance of assessment tax which had exceeded a period of 05 years as at the end of the year under review had been Rs.3,989,545.	It has been scheduled to implement the mobile programmes for the collection of arrears of assessment tax from the last week of April 2023 and action will be taken to reduce the arrears of assessment tax very soon.	Programmes that are necessary to recover arrears amounts should be implemented.
<b>Acreage tax</b>		
The arrears in acreage tax to be recovered from more than 5 years by 31 December of the year under review had been Rs.83,873.	Action will be taken to conduct a survey for acreage tax and the money that can be written off will be written off and the remaining arrears will be collected.	Necessary action should be taken to recover the arrears amounts.
<b>Rental</b>		
(a) Action had not been taken to recover arrears of shop rent amounting to Rs.199,760 to be recovered as at 31 December 2022 from shops provided temporarily to 07 persons, who had conducted shops at the public market.	Action will be taken to collect the arrears.	Action should be taken to implement the Programmes required to recover arrears amounts and to increase the revenue.

- |     |  |  |   |
|-----|--|--|---|
| (b) | A revenue amounting to Rs.792,000 had been lost due to charging rentals less than the assessed rent for the building, where the Vocational Training Authority was being conducted. | Action will be taken to recover the arrears amounting to Rs.649,130. | Leasing out of property should be done based on the assessed value. |
| (c) | Action had not been taken to charge a tax amounting to Rs. 1,575,614, which had been prevailing for a long time in relation to leasing of assets.                                  | That legal action will be taken to recover the arrears.              | Action should be taken to recover the arrears amounts.              |

**License fees**

Even though all the industries included in the list obtained from an annual survey as per the Pradeshiya Sabha Rule 61 should be included in the tax register of industries and the business tax and trade license fee register, action had been taken to include only the businesses that pay charges in the register. Although the billed revenue in 2020 had been Rs.1,100,000, it had decreased to Rs.500,000 in the year 2022.	The survey work has been conducted in the year 2023 in accordance with the Pradeshiya Sabha Rule 61.	At the beginning of the year, a formal survey should be conducted and business taxes and license fees should be collected.
---	--	--

**3. Operational review**

**3.1 Activities Outside the Objectives**

Audit Observation	Comments of the Sabha	Recommendation
Although Rs.46 million had been estimated for the repair and maintenance of physical plans, roads and lands and buildings, 18 industries worth Rs.6,953,617, which had not been included in the action plan had been accomplished during the year.	That action will be taken in accordance with the action plan in the year 2023.	Action should be taken to complete the activities and goals included in the action plan.

**3.2 Management inefficiencies**

Audit Observation	Comments of the Sabha	Recommendation
(a) Godawela Weekly fair restaurant had been run by one person under lease basis by entering in to an agreement with effect from the year 1996 and the lease period had been extended from time to time and the lease period had been terminated on 30 August 2021 and even though action should be taken to call tenders and to lease out the property again when the lease period of a	That a contract has been signed for 03 years with effect from 31 August 2021 for Godawela weekly fair restaurant.	Action should be taken to lease out formally.

leasehold property had been terminated, the property had been leased out to the above mentioned person in contrary to that on the decision of the Finance Committee dated 04 May 2021 and subjected to the approval of the Chief Minister for another 03 years with effect from 31 August 2021 and action had not been taken to charge the security deposit amounting to Rs. 80,000 and stamp duty of Rs. 2,400 and to enter into the agreement.

- |     |   |   |  |
|-----|---|---|--|
| (b) | A revenue of Rs.1,040,000, which could have been collected by the Pradeshiya Sabha by leasing out the building had been lost as the construction of Uhumiya multi-purpose building had not been completed and handed over to the Sabha by 24 December 2021.                 | That it had not been possible to lease out the shops as scheduled as the Electricity Board had no required equipment to obtain electricity for the building.  | As it is a source of earning revenue for the Pradeshiya Sabha, action should be taken to complete the work promptly and to lease out it. |
| (c) | The land, on which the Polgahawela Uhumiya Multipurpose Building had been built by incurring a cost of Rs.19,244,563, had been a land owned by the Land Reform Authority of Kurunegala District and action had not been taken to transfer the land even by 30 January 2023. | Divisional Secretary of Weerambagedara has been informed to transfer this land legally. Accordingly, action will be taken to take over the land immediately after obtaining the consent of the Commissioner of the Local Government through the Divisional Secretariat. | Action should be taken to acquire the land expeditiously.  |
| (d) | Although the assessment of the assessment tax should be done at least once in 05 years, the last assessment of the assessment tax of Polgahawela Pradeshiya Sabha had been done in the year 2014.   | Even though an assessment has been done in the year 2020, the assessment tax has been levied in the year 2022 based on the assessment of the year 2014 as the new assessment has not yet been received.   | The assessment tax should be assessed on the due date.   |
| (e) | Action had not been taken to obtain an assessment of 112 compliance certificates issued from 2015 to 2022 and to collect the assessment tax.  | Not taking action to obtain the assessment of the units related to these compliance certificates and to charge assessment tax was a negligence of our part.   | Action should be taken to assess the relevant property and to levy the assessment tax.   |
| (f) | Even though the approval of the Minister in Charge of Subject should be obtained in leasing out on long-term lease to an external party to run a tea shop on the land, where the  | This shop has not been leased out for a long period and it has been entered into a contract for 2 years on the  | Action should be taken to lease out formally.  |



slaughter house was located on Polgahawela Kegalle Road owned by the Pradeshiya Sabha, it has been given on the decision of the Committee dated 11 May 2015 to construct and run a tea shop and a fruit shop temporarily without obtaining such approval and even though this agreement had been cancelled after 11 May 2017, the Council had allowed to run the tea shop without a formal agreement even up to 01 May 2022.

recommendation of the committee dated 11 May 2015 and with the approval of the General Council and this contract has been renewed once in every 2 years.

#### **04. Accountability and Good Governance**

##### **4.1 Action Plan**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
While preparing the action plan for the year 2022 by the Pradeshiya Sabha, the action plan had been prepared by assessing provision for nominal (dummy) activities by identifying the actual activities related to the projects that had been implemented during the year and by preparing the cost estimates and without preparing the plans accordingly.	That action will be taken as per the action plan during the year 2023.	Action should be taken to operate the work of the Council in accordance with the action plan.